

Message Text

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SUBJECT: EC DAIRY SITUATION

REF: (A) EC BRUSSELS 6745, (B) EC BRUSSELS 6746

1. BEGIN SUMMARY: THE EC COMMISSION HAS PROVIDED STATISTICAL BACKGROUND ON PAST AND PRESENT EC DAIRY SURPLUSES AND PROSPECTS FOR THE FUTURE IN ITS RECENTLY APPROVED OUTLINE FOR PROPOSED MEASURES IN THE DAIRY SECTOR. END SUMMARY.

2. THIS MESSAGE SUMMARIZES THE BACKGROUND MATERIAL ON THE EC DAIRY SITUATION INCLUDED IN THE EC COMMISSION'S OUTLINE FOR REFORMING THE DAIRY SECTOR. PREVIOUS MESSAGES (REFTELS) HAVE REPORTED ON THE PROPOSED TAX ON FISH, MARINE AND VEGETABLE OILS AS WELL AS MEASURES IN THE DAIRY SECTOR AIMED AT REDUCING EC SURPLUSES.

3. PRODUCTION

THE AVERAGE ANNUAL INCREASE IN EC MILK PRODUCTION IS IN THE ORDER OF 1.7 PERCENT (1960/1975). THIS IS NOT DUE TO GROWING DAIRY COW NUMBERS WHICH REMAIN AROUND 25 MILLION, BUT TO HIGHER PER COW PRODUCTION WHICH IS INCREASING AROUND 1.4 PERCENT ANNUALLY. AVERAGE PRODUCTION GREW FROM 3,083 KGS IN 1960 TO 3,637 KGS IN 1975. MORE AND MORE MILK PRO-

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DUCED IS BEING MARKETED THROUGH DAIRIES (84.9 PERCENT IN 1968

AND 88.9 PERCENT IN 1975). MILK DELIVERIES TO DAIRIES INCREASED AROUND 10 MILLION METRIC TONS BETWEEN 1968 AND 1975. THE COMMISSION STATES THAT AROUND ONE-THIRD OF THIS INCREASE IN MILK DELIVERIES IS DUE TO IMPROVED YIELDS AND THE REMAINING TWO-THIRDS TO DECREASED CALF FEEDING ON THE FARM AND STRUCTURAL IMBALANCES. MODERNIZATION OF DAIRY FARMS AND PLANTS HAS TAKEN PLACE BECAUSE OF THE AVAILABILITY OF CHEAP CAPITAL OFFERED BY MEMBER STATE AIDS AS WELL AS THE COMMUNITY FEOGA FUNDS.

4. CONSUMPTION

HUMAN CONSUMPTION OF MILK AND MILK PRODUCTS EXPRESSED IN WHOLE MILK EQUIVALENT AND AT MARKET PRICES HAS REMAINED MORE OR LESS CONSTANT FOR A NUMBER OF YEARS. HOWEVER, THERE HAVE BEEN CHANGES IN THE COMPOSITION OF DAIRY CONSUMPTION; E.G., BUTTER CONSUMPTION PER CAPITA HAS DECLINED, CONSUMPTION OF LIQUID MILK AND FRESH PRODUCTS HAS REMAINED RELATIVELY CONSTANT, BUT PER CAPITA CONSUMPTION OF CHEESE HAS GROWN MARKEDLY. THE COMMISSION EXPLAINS THE LATTER PHENOMENON AS DUE TO THE FACT THAT CHEESE IS THE ONLY MILK PRODUCT NOT SUBJECT TO STRONG COMPETITION FROM OTHER PRODUCTS, (E.G. BUTTER WITH MARGARINE; FRESH PRODUCTS WITH NON-ALCOHOLIC BEVERAGES). BECAUSE OF ITS DIVERSITY, CHEESE CAN ADJUST MORE EASILY TO CONSUMER TASTES THAN OTHER DAIRY PRODUCTS. ONE OF THE MOST SIGNIFICANT DEVELOPMENTS IN THE LAST TEN YEARS IN DAIRY CONSUMPTION CONCERNS THE RAPID DISPLACEMENT OF LIQUID SKIM MILK USED AT THE FARM WITH SKIM MILK POWDER, AND THE AVAILABILITY OF SKIM POWDER HAS INCREASED CONSTANTLY. THIS SITUATION IS DUE TO SOME PART TO INCREASES IN POWDER SUPPORT PRICES AND TO INCREASED PRODUCTION CAPACITY FOR POWDER.

5. PAST MARKET IMBALANCE

THE COMMISSION CONCLUDES FROM ITS ANALYSIS OF THE PAST DAIRY MARKET SITUATION THAT THERE IS A PERMANENT STRUCTURAL SURPLUS RESULTING FROM EXCESSIVE SUPPLIES AND PRACTICALLY STAGNANT CONSUMPTION. BETWEEN 1968 AND 1975 THE COMMUNITY HAD TO DISPOSE OF 10 PERCENT OF THE EC'S UNCLASSIFIED

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BUTTER PRODUCTION AND 75 PERCENT OF ITS SKIM MILK PRODUCTION AT REDUCED PRICES. COSTS TO THE GUARANTEE SECTION OF FEOGA FOR THE DAIRY SECTOR GROW FROM 600 MILLION U.A. IN 1968/69 (EC-6) TO 1,521 BILLION IN 1973 (EC-9), AND ESTIMATES FOR 1976 EXPENDITURES ARE AT AROUND 1.9 BILLION U.A. (EC-9). THE ENLARGEMENT OF THE COMMUNITY IN 1973 WILL NOT IMPROVE THE DAIRY PRODUCT SUPPLY AND DEMAND SITUATION, IN THE COMMISSION'S VIEW, BECAUSE

OF THE ALIGNMENT OF THE 3 MEMBER STATES TO EC-6 PRICE SUPPORT LEVELS AND ITS EFFECT ON MILK PRODUCTION IN THE NEW MEMBERS ALREADY FAVERED WITH EFFICIENT PRODUCTION STRUCTURES.

6. PRESENT MARKET IMBALANCE

MILK PRODUCTION IN THE COMMUNITY WAS AROUND 91.7 MILLION M.T. IN 1975 (91.3 MILLION M.T. IN 1974). HUMAN CONSUMPTION OF MILK PRODUCTS ON THE OTHER HAND WAS AROUND 85.4 MILLION M.T. MILK EQUIVALENT. MILK DELIVERIES TO DAIRIES WERE AROUND 81.5 MILLION M.T. IN 1975 AS COMPARED TO 80.9 MILLION M.T. IN THE PREVIOUS YEAR. ENDING STOCKS FOR BUTTER WERE 164,000 M.T. AND FOR SKIM MILK POWDER 1.1 MILLION M.T. FOR THE FIRST HALF OF 1976 MILK DELIVERIES GREW BY 5 PERCENT BUT ARE EXPECTED TO DROP OFF IN THE SECOND HALF OF THE YEAR AS A RESULT OF THE DROUGHT.

7. FUTURE MARKET BALANCE

EC STRUCTURAL DAIRY SURPLUSES WILL TEND TO INCREASE IN THE FUTURE, ACCORDING TO THE COMMISSION, DUE TO INCREASED PRODUCTION AND STAGNANT OR EVEN DECLINING CONSUMPTION. THE CONSTANT INCREASE IN PER COW YIELDS, INCLUDING THE PERMANENT INFLUENCE OF A FAVORABLE PRICE RELATIONSHIP BETWEEN MILK AND SOYBEANS, LARGER MILK DELIVERIES TO DAIRIES AND THE END OF THE DOWNWARD CYCLE IN MILK COW NUMBERS ARE ALL FACTORS POINTING TO GREATER PRODUCTION AND CONSEQUENTLY BIGGER SURPLUSES IN THE YEARS AHEAD. THE COMMISSION BELIEVES THAT IN THE ABSENCE OF RESTRAINT MEASURES THE EC SURPLUS SITUATION WILL WORSEN. EVEN WITH THE UNCERTAINTIES REGARDING THE SHORT-TERM CONSEQUENCES OF THE DROUGHT, THE COMMISSION STILL BELIVES THAT MILK SURPLUSES WILL UNCLASSIFIED

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OUT-DISTANCE MARKET DEMAND IN THE FUTURE. HINTON

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